

REMOTE STORAGE

The Initial Financing of an Enterprise

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THE PLACE OF THE PROMOTER

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That there is a right way and a wrong way of doing things would seem to be so much of an aphorism that it would be unnecessary to dwell upon it before such an intelligent and experienced body of business and professional men as compose this group; yet there are many men of high intelligence who evidently think that the starting of an enterprise is an exception to this rule.

When a man or a group of men decide to start a company they realize that certain steps have to be taken, that they should be taken with due care, that they should be taken in proper order, and that these proceedings take time and that time is money.

Now, to save as much of this time, or money, as possible is proper, but how to save it is the question that always arises. Shall they do the work themselves, or shall a promoter, a man who makes a business of doing such work, be secured? The name promoter has fallen into disrepute because of the bad work done by men who have been failures at everything else in their lives and have taken up the work of starting enterprises as a profession. Most of these have had a greater anxiety to realize an immediate profit for themselves than to assure the capitalists whom they were endeavoring to interest in their projects a safe and remunerative investment. But because there have been bad promoters does not necessarily mean that there have not been and are not good ones. There are good and bad workmen in all lines of business, and this is not an exception.

So it will come down to this: It will cost a certain amount of money to get started anyway. It will cost less money in the long run to start right than to start wrong. If one is equipped with the necessary knowledge to start right himself, it would be a waste of money to hire some one to do the work of starting for him, but if not, then

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by all means a man who has a good reputation for honesty and for success in that kind of work should be secured.

There have been about as many industrial failures that can be traced to incapable promoters who brought the enterprises into the world as there have been human failures in life who can trace their weaknesses back to the ignorance of their parents, and the attendants whom they secured to assist them, at their birth.

THE IMPORTANT CONSIDERATIONS IN A PROMOTION

In promoting a corporation which is to take over patents, rights, or properties, the following points should receive careful consideration and the most rigid investigation.

First, the validity of the patents, or the clear and unincumbered title of the rights or properties must be secured as nearly as the closest investigation can determine them, for the entire structure of the enterprise must be built upon this validity, or these rights.

Second, the probability and strength of competition must be fully investigated.

Third, the probability of the proposed corporation being able to command, at a reasonable cost, the talent necessary to make the enterprise successful must be assured.

Fourth, the amount of capital required to insure the success of the enterprise should be amply sufficient to cover all expenses, including experimentation if necessary; and to provide whatever facilities are necessary for successful operation, so that it will be unnecessary to apply a second time to the subscribers of the stock of the corporation. The capital should also be so limited in amount that interest and dividends will not be so heavy a burden as to lead to failure, as it is manifest that both under-capitalization and over-capitalization must be avoided if the enterprise is to be successful.

Fifth, if the enterprise is of a character that is likely to appeal to a large number of small investors, the capital stock of the corporation might be fixed at a small valuation, but if investors of large resources are to be solicited, the shares of the stock can be more conveniently fixed at not less than one hundred dollars per share. Experience has demonstrated that in the majority of industrial and railway enterprises the most convenient value of shares is this amount.

Sixth, as to the amount that should be expended for promotion, it would seem that the corporation might properly pay in cash the actual disbursements of the promotor, but that his compensation

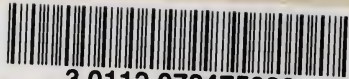
should in every case be in the shares of the corporation he is promoting. If he is not satisfied to accept such shares as his compensation, it would indicate a lack of confidence in the success of the enterprise, and his appeal for capital might be looked upon with some misgiving.

Seventh, in capitalizing a manufacturing business a question to be carefully considered is whether at the initial point of the enterprise the manufacturing plant should be constructed, or the proposed product contracted among existing manufacturers having the necessary facilities. To determine this question the most careful estimates must be made as to the cost of the proposed plant and the creation of an establishment, fully equipped, to carry on the manufacturing. The closest investigation must also be made of the power and labor required for the production of the article to be manufactured, including also the interest on the investment in the plant and the regular allowance for depreciation. With the estimate thus arrived at—and it should be sufficiently large to cover all possible contingencies—owners of other plants capable of producing the articles can then be canvassed with a view of ascertaining the lowest price at which the article can be delivered, with freight added, to the point of distribution. It will then be possible to determine whether, under the circumstances, it is advisable to construct the plant or contract for the article the corporation is to sell.

Eighth, if it is possible to secure in advance the services of a general manager who has a record of success in similar undertakings, it is often of great assistance in securing capital required for the new enterprise.

Ninth, the advantages of a corporation over a partnership in a manufacturing or commercial business, so far as the investor is concerned, are so manifest as scarcely to require statement. For any modern business requiring a large aggregation of capital, a large number of people can be found to invest a small amount of capital when it would be found impossible to obtain the necessary amount from a few individuals who would be willing to become partners, particularly in view of the nominal liability of the stockholders in case the corporation is unsuccessful and becomes involved in debt. It is safe to say that the business of the United States would never have been expanded as it has in the last fifty years if it had not been for the laws permitting corporations.

Tenth, in promoting enterprises, the question of the personnel of the capitalists to be approached with the view to securing an invest-



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ment must, of course, be considered, but, as a rule, it has been found that capital can be obtained for a new enterprise more readily from men with experience in similar lines of business than from other sources. For instance, it is always found that an enterprise proposing to manufacture cotton goods can be more easily financed among men who have had experience in manufacturing cotton goods than elsewhere. The same may be said of the manufacturing of iron or any other of the numerous branches of manufacture which complicated conditions of life have made necessary.

EFFICIENCY IN FINANCING

It is evident that within the scope of this brief paper it is impossible to do more than touch upon these points. Each one involves so many considerations that it is in itself a complex problem. Failure to give any one of them its due attention may result in the failure of the whole enterprise.

The application of the universal efficiency principles to the initial financing is less apparent, but no less certain, than to other departments of the business. Here, as elsewhere, expert guidance is always useful and sometimes essential. Here, as elsewhere, waste can be avoided and greater results secured by proper organization and direction of energy. Here, more than in most other places, scientific knowledge and planning must be used, for a mistake at the outset is not easily to be repaired. The financial history of our own Nation teems with instances of the disastrous cost of bad management in raising and expending funds.

Finance is the basis of all commerce. Inefficient methods of finance are the basis of many inefficiencies in commercial and industrial enterprise, if for no other reason than the example they give to the other operations. It has sometimes happened that the natural prosperity and increasing wealth of the country has saved an enterprise that was begun by a wasteful and rash promotion. But this condition will not always obtain. The future will see few successful enterprises that begin with vague promises and a fund of optimism. It will see more that begin with scientific financing in accordance with the principles of efficiency.